

Good Afternoon. Governor McCallum, Secretary Dube, and Commissioner O'Connell. I would like to thank you for giving me the opportunity to discuss the cost of health care and issues of affordability in our state. You are to be commended for taking a lead role in drawing public attention to the healthcare concerns that impact the industry and consumers alike.

My name is Jim Hartert. I am Chief Medical Officer for Cobalt Corporation, the Blue Cross and Blue Shield licensee for Wisconsin, headquartered in Milwaukee. Cobalt has nearly 2400 employees in Wisconsin, and is the largest health insurer in the state representing over 600,000 covered lives in the state. We provide a complete line to group and individual insurance and other services in Wisconsin and throughout the 50 states.

It is long overdue that we as a society debate healthcare costs. Not since early in the Clinton administration has there been such focus brought to this complex and compelling social issue. In the interest of time, I'll focus on what I believe to be the key drivers of healthcare inflation.

We cannot ignore demographics. The baby boomers have turned 50, the median age of the US population

has aged by 5 full years since the 1980's. The changing demographics of Wisconsin, and particularly southeast Wisconsin have been widely discussed. The average 55 year old man consumes 5 times the healthcare of that of a 25 year old. All other issues apart, it is an unavoidable reality that we as an aging society will expend more of our resources on healthcare. Just as important the primary focus of healthcare is changing rapidly and dramatically from acute episode illness to chronic diseases of aging.

Over the last decade, public policy decisions and actions of the legal system have reinforced individual entitlement and access to healthcare services for the insured. Without debating the individual merits, which may in fact justify their expense, these mandates and regulatory expectations are costly. The issue of affordability of healthcare cannot be left on the front steps of our courthouses or legislatures as we debate the issues of interest groups.

Today, we as a society have higher expectations. We've enjoyed what the technological developments ATM's, microwaves, VCR's, PC's and the Internet have brought to our lives. This has translated to a patient population with demands for choice, higher service, information and autonomy. However, they come layered on a system with an enormous degree

of price insensitivity. As the insured population of this country approaches healthcare, the bill is passed on to the government, health plans, and employers, without significant financial impact on all individuals. Essentially it's not real money. The government, health plans, and employers just absorbed it. I have health insurance therefore I am entitled to what I want. Absent a greater degree of personal responsibility this entitlement demand will continue to outstrip the resource and process capacity of the healthcare system.

No discussion of healthcare inflation would be complete without implicating the role of pharmaceuticals. There have been phenomenal advances over the last decade, but along with this has become a myriad of "me too drugs", minor modifications of the previous existing drugs, drugs of questionable efficacy, and drugs designed to enhance our lifestyle, not necessarily to reduce the burden of pain and suffering. When examining the pharmaceutical trends, perhaps no other action has had more impact than the federal drug administrations allowing of direct to consumer advertising. We've all been exposed to the myriad of advertisements that cover the airways often conveying little or no information. It is more than a casual association of the expansion of direct to

consumer advertising and the explosion of pharmaceutical costs in this country, but it doesn't stop there. This serves as a warning to us that advertisement in the absence of true education of other technologies and services, could lead to an equal rapid expansion of healthcare inflation in the future. Equally important to understanding pharmaceutical inflation is patent protection. There is enormous opportunity for cost reduction and improvement of quality of life through expanding the access and availability of generic medications. Both of the issues related to pharmaceuticals are examples of the direct result of conscious public policy decisions. While policy debate is a federal one, we at the states need not be silent.

Despite my previous comments, I remain intensely positive that there are solutions to the issues that we confront. My organization and others are investing heavily in development of disease management programs to address the conditions that affect the aging population. Case management to deal with catastrophic care is coordinating care from our fragmented care system. We've begun developing products to introduce a greater degree of price sensitivity to the end users of healthcare. This area will receive additional attention and holds considerable promise in the years to come. In

addition to our lobbying efforts at a federal level we have introduced significant innovation in managing pharmaceutical costs.

In the interest of time I've not touched on other opportunities that could be brought to bear in the areas of medical error reduction and enhancing the flow of federal dollars into Wisconsin healthcare.

Wisconsin is one of the healthiest states in the union. We have low unemployment. We are generally well insured. We have robust innovative compassionate public programs and are blessed with sophisticated healthcare delivery systems. However, we can and we must do better than we have before. A vibrant private marketplace with responsible regulation can produce innovative solutions. The most important element to the solution is the debate itself. It's been long overdue, I'm glad it's back, and I look forward to it progressing. Sunshine is almost always good public policy. It's served us well in the past and it will serve us well into the future.

In conclusion, I would like to thank the leaders of today's session for taking the time to hear from representatives of the health care community, as well as business leaders and the public about the issues

that we are facing today. If you have any questions, I would be happy to try to answer them at this point.

Thank you.